

Country Paper-Sri Lanka
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1.0 Sri Lanka- An Introduction

1.1 The profile of the country

Sri Lanka is an island in the Indian Ocean with a land area of 62,705 sq.km and 2905 sq.kms of inland waters making a total area of 65, 610 sq.km -It has a population of 19,449,000 with a crude birth rate (2003) 18.9 per 1000 population. The average population density of the country is 310 persons per sq.km

Sri Lanka has a life expectancy of 71.7 years for males and 76.4 years for females and is ranked as 96 among 177 countries with a Human Development Index of 0.740. The average overall literacy rate of the country is 92.5%.

The total employed persons are estimated as 7,305 million by 3'd quarter in 2004 with 1,094.415 employed in the state sector. 34.1% of the employed are from the agricultural sector and 21.4% are employed in the industry sector. The largest is employed in the services sector with 44.5%. Per capita GNP registered in 2004 US\$ 1025. Gini coefficient of household income is estimated to be 0.46. The domestic savings /GDP ratio was 15.9% in 2004as in 2003.

The country has a per capita electricity consumption of 348 kWh /year with 73% of the households having electricity. The telephone landlines are 5.1 per 100 persons while the cellular phones cover 16 per 100 persons. Internet and email is 4.5 per 1000 people.

2.0 Economic Performance

2.1 Sectoral Analysis of the major economic activities

The economy of the country mainly depends on plantation crops (Tea, Rubber, Coconut, Minor Crops), Apparel industry, Tourism, Foreign Employment. A large majority of the rural people are engaged in paddy cultivation, which is just sufficient for local needs. The economy since independence in 1948 has grown at an average rate of 4% while the average growth rate recorded during the past 10 years is 5% of GDP.

The main sector contributing to the economy is the services sector. In the following analysis this is clearly evident.

In 2004 the sector contribution to GDP was as follows.

Agriculture, forestry and Fishing	17.9%
Agriculture	13.8%
Tea	1.3%
Rubber	0.3%
Coconut	1.2%
Paddy	2.6%
Others	8.6%
Forestry	1.7%
Fisheries	2.3%

Industry	26.5%
Mining & quarrying	1.7%
Manufacturing (Processing of Tea rubber & Coconut & factories included)	16.3%
Construction	7.0%
Electricity & Water	1.5%

Services	55.7%
Transport, Storage & Communications	14.6%
Financial services, Real estates & Business services	11.7%
Public administration, other government services and defense and other community, social and personal services	7.1%

The sub sectors of paddy, tea, rubber, textile & apparel produces a very large employment base for rural poor people. However these sectors contribute large environmental pollution load to the country. Therefore proper management of these sectors are important for environmental well being.

3.0 Small and Medium Industries Sector

Various government agencies use different criteria to identify SMIs such as the number of employees and size of fixed capital asset. The definition used by the National Development Bank is SMIs are "Companies with total fixed assets of Rs. 20 Million or less, excluding land and building".

The most commonly used definition is small-scale enterprises with 5-49 employees, medium scale enterprises with 50-149 and large scale with more than 150 employees. According to industrial census conducted in 2003/2004 there were 121,426 Industries having less than 10 employees with total employment 285,623 and 9961 Industries with more than 10 employees having 747,823 employees. Among them, the number of industries with less than five employees accounted for 84.3% of the total, contributing 7.5% to the total production value, 7.0% to Gross Value added (GVA), and 28.4% to the total employment of the manufacturing sector. A survey conducted by UNDP estimates that SMIs with total fixed assets of Rs. 16 million or less accounted for 90% of the establishment, 70% of employment, and 55% of Gross Value Added.

Within manufacturing SMEs account for 95% of establishments, 25% of output and 34% of employment, 30% of SMEs are engaged in exports.

Considering large number of employment by SMIs, and the fact that many SMI units, unlike factory industries, are located in the rural areas where unemployment level is higher, SMIs are quite important in the Sri Lankan economy. It is pointed out that there are a number of problems associated with SMIs. Among them are:

- i) Low level of technology, marketing knowledge and management skill,
- ii) High production cost caused by high electricity tariff, and various taxes such as import duty on capital goods, defense levy and GST.
- iii. Difficulty of financing due to various reasons including high interest rates, shortage of collateral, and lack of knowledge of bank procedures,
- iv. Lack of know-how to deal with rather complicated government procurement procedures, and
- v. Lack of entrepreneurship

The recent establishment of the SME Bank to support credit to the SME sector through direct financing and credit guarantees is expected to assist the SME sector.

A survey done by Central Bank of Sri Lanka in 2001 revealed the following:

Distribution of Difficulties Faced by Small Business-by-Business Sector

Business Sector	No. Difficulty	Marketing Problems	Capital Inadequacy	High cost Of Production	Difficulty In Purchasing Raw Material	Non Availability of Skilled labour & Lack of Technological Expertise	Other Problems
Industry	19.0	30.3	25.4	8.8	7.3	4.3	4.9
Services	22.3	33.5	24.4	7.9	2.4	4.5	5.0
SBEs	20.3	31.5	24.9	8.4	5.4	4.5	5.0

4.0 Status of the Ancillary Industry -

The Engineering Sector- The nationalization and the liberalization of the economy in late Seventies reduced the output of this sector. Machining, assembling and sub-assembly are normally performed in these units. Casting and plating operations are also performed while forging, stamping are made only by few companies in the country. Gear cutting is also absent or very low. Most materials are imported.

Subcontracting is done mainly in coating, plating, forging, fabrication, heat treatment, hot dip galvanizing. Some SMIs in the sector have excess capacity and also process specialized machinery for die and mould industry. Sri Lanka has one of the best ship -building and repair yard in Asia. The company has facilities to train subcontractors.

The Rubber Industry: Is the main thrust industry of the country. Sri Lanka is the sixth worldwide producer of natural rubber. The 50% of the natural rubber is exported as raw material; from the half locally processed a 58% is exported, the main exported rubber product are industrial solid tyres, latex dipped products, flooring and pneumatic tyres and tubes. The local industry comprise SMI, 74% of the total units, and 5% large companies. The large companies are mostly export oriented while the small units serve the domestic market.

Coir based product industries: the coconut fiber output is 2.9% of the GDP and is the third agricultural export-oriented crop after tea and rubber. All parts of the coconut tree and fruits are utilized to produce a wide range of products. The local availability of an up-date process technology seem to be the major concern for the products to be international competitive. Large number of SMIs are involved in subcontracting.

Mining sector: Small-scale mining for gemstones, ancillary cutting and jewelry manufacturing operations have significantly contributed to the Sri Lanka economy for many centuries. Currently this artisanal industry officially contributes 5% of the foreign exchange income of the country. It employs, directly or indirectly, a minimum of 750,000 workers of which 100,000 are small-scale miners. (from Internet resources)

5.0 Role of the subcontracting exchange in facilitating Ancillary

Ancillary Industry

Sri Lanka Ancillary Industry has a good potential. Due to the slow take up by the large Industries the sector is still not well developed. However, Ancillary Industry and subcontracting practices are in existence for a long time. Among this the Coir sector and Leather sector are in the forefront.

The potential sectors for the development of ancillary production is Agricultural Machinery, Tea Industry, Automobile assembly (already it has started) and Rubber Industry. Electronics and Textile sector, sub contracting is fairly developed which is limited to the export Industry.

Subcontracting exchange as Catalyst for Ancillary Industry development

Subcontracting exchange was first establishment by the Industrial development board. After a Ministerial Study in the year 2000. Recommendations were made to set up an UNIDO Sub Contracting and Partnership Exchange (SPX) system type exchange in a private sector association. Accordingly the UNIDO SPX was established in 2001 under Small and Medium Enterprise Developers (SMED), which is the consultancy arm of the Federation of Chambers of Commerce & Industry of Sri Lanka. This exchange has visited over 460 industries in Rubber, Electronics, Electrical, plastics, coir and Engineering sector and registered 400 companies who are potential subcontractors. The centre provides information on potential subcontractors and also conducts vendor development programs

Recent "reverse fair" conducted by the SPX revealed that large number of parts in private sector and large government organizations such as Railways could be Subcontracted, to SMI and ancillary units.

6.0 Conclusions and Recommendation

1. Policies must be formulated to promote ancillary production and subcontracting.

2. Some of the economic and legal constraints for subcontracting should be removed.
3. Promotion or Creating awareness in the large industries or large Conglomerates is vital.
4. Public procurement of selected spare parts for departments such as Electricity Board, Telecommunication and Railways should be channeled to SME ancillary production units.
5. The clusters of Industries specially in the SME sector should be promoted and upgraded
6. The FCCISL through its regional and Colombo based Chambers have launched a programme to facilitate "Corporate Linkages" which will promote SMIs in the regions to get into sub contracting and promoting small ancillary units.

Census of Industries – 2003 / 2004
Listing of Industrial Establishments
Summary Table 1- No of Establishments and persons engaged by District, Sri Lanka -2003

District	Small Industries (Persons engaged less than 10)		Medium & large Industries (Persons engaged 10 and more)	
	No. of Establishments	Persons engaged	No. of Establishments	Persons engaged
Colombo	12,089	34,146	1,996	169,366
Gampatha	15,516	40,339	1,818	213,754
Kalutara	6,454	15,732	611	52,593
Kandy	8,100	19,447	645	36,803
Matale	3,321	6,995	193	11,991
Nuwara – Eliya	1,746	3,752	234	19,252
Galle	5,682	13,504	444	35,052
Matara	5,033	10,455	273	18,416
Hambantota	3,893	7,318	84	12,674
Jaffna	2,684	6,933	113	2,224
Mannar	413	1,083	20	336
Vavunia	567	1,417	37	1,177
Mullativu	492	1,456	36	630
Kilinochchi	441	1,188	25	732
Batticaloa	1,898	4,764	120	2,752
Ampara	3,682	8,627	174	5,297
Trincomalee	1,487	3,254	38	2,998
Kurunegala	16,943	37,868	877	48,384
Puttalam	5,930	16,451	737	25,491
Anuradhapura	4,581	9,653	205	12,656
Polonnaruwa	2,489	5,002	221	11,152
Badulla	3,142	6,639	201	10,607
Moneragala	2,261	4,352	60	5,506
Ratnapura	5,916	12,521	534	29,744
Kegalle	6,666	12,727	265	18,241
Total	121,426	285,623	9,961	747,828

Source: Department of Census & Statistics.

Census of Industries – 2003 / 2004
Listing of Industrial Establishments
Summary Table 1- No of Establishments and persons engaged by Industry, Sri Lanka -2003

Type of Industry	Small Industries (Persons engaged less than 10)		Medium & large Industries (Persons engaged 10 and more)	
	No. of Establishments	Persons engaged	No. of Establishments	Persons engaged
Other mining and quarrying	5,414	21,388	834	15,560
Manufacture of food products and beverages	35,418	70,955	2,290	102,924
Manufacture of tobacco products	437	1,491	103	5,812
Manufacture of textiles and yarn	2,930	12,199	1,006	52,848
Manufacture of apparel	12,976	27,999	1,633	353,742
Manufacture of leather products	1,181	3,689	190	13,352
Manufacture of wood and products of wood and cork	5,944	17,741	428	10,103
Manufacture of pulp and paper based products	229	837	120	7,584
Publishing, printing and reproduction of recorded media	1,738	5,157	280	13,654
Manufacture of refined petroleum products	13	62	8	2,018
Manufacture of basic chemical and chemical products	1,401	4,415	329	18,878
Manufacture of rubber and plastic products	4,534	7,269	501	43,586
Manufacture of non-metallic mineral products	17,486	45,117	754	25,525
Manufacture of basic metal	412	1,256	114	9,059
Manufacture of fabricated metal products	11,434	23,063	248	8,900
Manufacture of machinery and equipment n.e.c. }				
Manufacture of office accounting and computing machinery }	302	775	102	7,258
Manufacture of electrical machinery and equipment n.e.c. }	125	383	67	9,722
Manufacture of radio, television & communication equipments	81	213	23	2,131
Manufacture of medical & optical instruments, watches & clocks	28	82	6	186
Manufacture of motor vehicles, trailers & semi-trailers	209	562	51	1,979
Manufacture of other transport equipment	43	144	30	2,470
Manufacture of furniture & other products n.e.c.	18,286	38,907	688	35,123
Recycling	21	92	8	234
Supply of electricity, gas steam and hot water	130	228	22	661
Collection, purification and distribution of water	527	1,225	109	4,041
Note Specified	127	374	17	487
Total	121,426	285,623	9,961	747,828

Source: Department of Census & Statistics.